

Innovation and globalization

What is globalisation?

<https://www.youtube.com/watch?v=QqD00yn8f1E>

“The increased interdependence of economies across the world”

- Dimensions of globalization include trade, technology, finance and labour migration

What is globalisation?

Globalization is the process of increasing interconnectedness and interdependence among countries, economies, cultures, and societies around the world.

- It is driven by advancements in transportation, communication, and technology, which have facilitated the exchange of goods, services, information, and ideas across borders.
- Globalization has led to the expansion of international trade, the rise of multinational corporations, and the integration of economies into a global marketplace. It has also fostered cultural exchange, migration, and the spread of ideas and values across continents.

What favours globalization?

Rise of Internet and falling costs of transport and communications make it easier and cheaper for firms of any size to gain access to foreign markets.

- Firms may export their products, source inputs from abroad, outsource part of their production
- Financial flows lead to investment in any country
- Most importantly, technology transfers across boundaries can be increased

Innovation and globalization

The relationship between innovation and globalization is strong:

- → **globalization** creates opportunities for innovation by enabling the flow of knowledge, capital, and talent across borders. It allows companies to access new markets, collaborate with partners from different regions, and leverage diverse perspectives to drive innovation.
- → **innovation** fuels globalization by creating new technologies and business models that facilitate global connectivity and efficiency.

Eg. advancements in information technology have enabled the rise of e-commerce platforms, digital communication tools, and global supply chains, which have transformed the way businesses operate and interact on a global scale.

The drivers of globalization

The drivers of globalization are forces that have fueled the process of increasing interconnectedness and interdependence among countries, economies, cultures, and societies.

- 1. Advancements in Transportation**
- 2. Advancements in Communication**
- 3. Advancements in Technology**

Key features

Globalization is characterized by several key features that have reshaped the world economy, society, and culture. Among these features are increased

- international trade,
- cross-border investment,
- cultural exchange.

Key features: international trade

One of the central features of globalization is the expansion of international trade, which involves the exchange of goods and services across national borders.

Globalization has led to the **liberalization of trade policies** and the **removal of barriers such as tariffs**, quotas, and trade restrictions, facilitating the flow of goods and services between countries.

International trade has grown significantly over the past century, driven by advancements in transportation, communication, and technology, as well as the emergence of global supply chains and multinational corporations.

Global trade allows countries to specialize in the production of goods and services in which they have a comparative advantage, leading to increased efficiency, productivity, and economic growth.

Key features: Cross-Border Investment

Another key feature of globalization is the increase in cross-border investment, including foreign direct investment (FDI) and portfolio investment.

Globalization has enabled companies to expand their operations beyond domestic markets by investing in foreign countries, establishing subsidiaries, and forming strategic partnerships.

- Foreign direct investment involves the ownership or control of assets in a foreign country, such as manufacturing facilities, offices, or infrastructure projects.
- Portfolio investment involves the purchase of financial assets, such as stocks, bonds, or real estate, in foreign markets.

Cross-border investment promotes economic growth, technology transfer, and job creation, while also increasing financial integration and interconnectedness among countries.

Key features: Cultural Exchange

Globalization has facilitated cultural exchange and interaction among people from different countries and regions, leading to the spread of ideas, values, customs, and lifestyles.

Cultural globalization is driven by advancements in communication, media, and technology, which have made it easier for people to access and consume cultural products from around the world.

Cultural exchange takes place through various channels, including mass media (e.g., television, film, music, literature), digital platforms (e.g., social media, streaming services), and international travel and migration.

While cultural globalization has led to greater cultural diversity and hybridization, it has also raised concerns about cultural homogenization, cultural imperialism, and the loss of traditional cultural identities.

Pros and cons of Globalization:

| Pros | Cons |
|--|---|
| Economic Growth Cultural Exchange Technological Innovation | Income Inequality Cultural Homogenization Environmental Degradation |

Opportunities for innovation:

Globalization creates opportunities for innovation by facilitating the flow of knowledge, capital, and talent across borders in several ways:

- 1. Knowledge Transfer**
- 2. Access to Markets and Resources**
- 3. Talent Mobility**
- 4. Cross-Border Collaboration**

Globalization boosts technological development

The increasing intensity of global knowledge flows points to important benefits of globalization.

While globalization has been much criticized for its possible negative side effects, globalization has amplified the spread of technology across borders in two ways:

1. it allows countries to gain **easier access to foreign knowledge**;
2. it enhances **international competition**—including as a result of the rise of emerging market firms—and this strengthens firms' incentives to innovate and adopt foreign technologies.

The positive impact of globalization on innovation

The positive impact has been especially large for **emerging market economies**, which have made increasing use of the available foreign knowledge and technology to boost their innovation capacity and labor productivity growth.

- Knowledge flows from the technology leaders may have generated, for an average country-sector, an increase in labor productivity growth.
- One important factor behind the build-up of innovation capacity in emerging market economies has been their growing participation in global supply chains with multinational companies, though not all firms have benefitted as multinationals sometimes reallocate some innovation activity to other parts of the global value chain.

Spreading the know-how

Globalization brings a key benefit:

- **it stimulates the spread of knowledge and technology**, helping spread growth potential across countries.

But interconnectedness per se is not enough:

- The assimilation of foreign knowledge and the capacity to build on it most often **requires scientific and engineering know-how.**

Investments in education, human capital, and domestic research and development are thus essential to build the capacity to absorb and efficiently use foreign knowledge.

It also requires an appropriate degree of protection and respect of intellectual property rights to preserve the ability of innovators to recover costs while ensuring that the new knowledge supports growth globally.